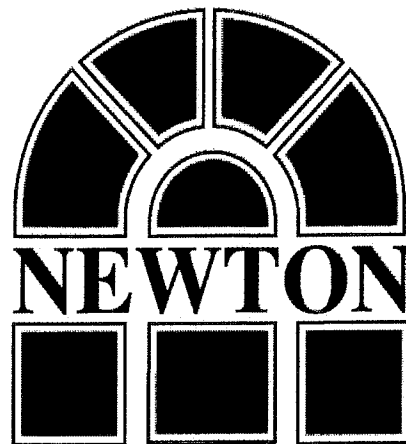


CITY OF NEWTON, IOWA

Independent Auditor's Reports

**Basic Financial Statements And
Supplementary Information
Schedule Of Findings And Questioned Costs**

June 30, 2006

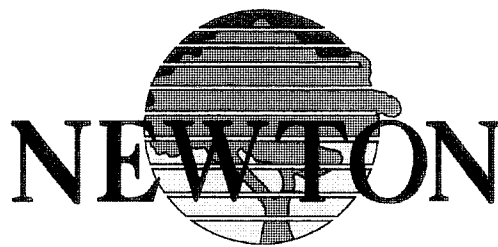


City of Newton, Iowa
Table of Contents

	<u>Page</u>
Introductory Section:	
Letter of Transmittal	1-6
City Organizational Chart	7
Officials	8
 Financial Section:	
Independent Auditor's Report	9-10
 Management's Discussion and Analysis (MD&A)	11-17
 Basic Financial Statements:	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Activities and Changes in Cash Balances	A 20-21
Fund Financial Statements:	
Statement of Cash Transactions and Changes in	
Cash Balances - Governmental Funds	B 22-23
Statement of Cash Transactions and Changes in	
Cash Balances - Proprietary Funds	C 24
 Notes to Basic Financial Statements	25-34
 Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts,	
Disbursements and Changes in Balances - Budget	
and Actual (Cash Basis) - All Governmental Funds	
and Proprietary Fund	36-37
Notes to Required Supplementary Information -	
Budgetary Reporting	38
 Other Supplementary Information:	<u>Schedule</u>
Nonmajor Governmental Funds:	
Combining Schedule of Cash Transactions and	
Changes in Cash Balances	1 40
Nonmajor Enterprise Funds:	
Combining Schedule of Cash Transactions and	
Changes in Cash Balances	2 41
Schedule of Indebtedness	3 42-43
Bonds and Notes Maturities	4 44-47
Schedule of Receipts by Source and Disbursements by	
Function - All Governmental Fund Types	5 48
 Compliance Section:	
Independent Auditor's Report on Internal Control over	
Financial Reporting and on Compliance and Other Matters	
Based on an Audit of Financial Statements Performed	
in Accordance with Government Auditing Standards	49-50
Schedule of Findings	51-52

	<u>Table</u>	<u>Page</u>
Statistical Section(Unaudited):		
Tax Increment Financing Fund - Statement of Cash Receipts and Disbursements	1	53
Comparison of Enterprise Funds Charges for Service Receipts	2	55
Comparative Total and Per Capita Program Disbursements	3	56-57
Comparative Property Tax Receipts by Fund Type	4	59
Comparative Property Tax Levies and Collections	5	60-61
Comparative Property Tax Rates Per \$1,000 of Assessed Valuation	6	62-63
Comparative Ratio of General Obligation Bonded Debt to Taxable Value and General Obligation Bonded Debt Per Capita	7	64
Schedule of Insurance Coverage	8	65
Sewer Fund Data	9	66
Miscellaneous Statistical Data	10	67

INTRODUCTORY SECTION



November 9, 2006

To the Honorable Mayor, City Council, and Citizens of the
City of Newton, Iowa

I am pleased to submit the annual financial report for the City of Newton, Iowa, for the fiscal year ended June 30, 2006, and to also provide information about the City organization and community. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation including all disclosures rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial statements on a cash basis of accounting. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities have been included.

The annual financial report is presented in four sections: introductory, financial, compliance and statistical. The introductory section includes the table of contents, letter of transmittal, the government's organizational chart, and a list of City officials. The financial section includes the independent auditor's report, management's discussion and analysis, basic financial statements and required supplemental information. The statistical section includes selected financial and demographic information generally presented on a multi-year basis.

The Compliance Section of this report includes the auditor's report on internal control over financial reporting and compliance with requirements applicable to laws, regulations, contracts, and other matters.

The City of Newton has operated under a Mayor-Council form of government with an appointed City Administrator since 1982. Policy-making and legislative authority are vested in the governing Council, which consists of a Mayor, and six-member Council. The City Council is responsible for adopting ordinances, policy resolutions, the annual budget and six-year Capital Improvements Program, appointing committees, and hiring the City Administrator and City Attorney. The City Administrator is responsible for overseeing the day-to-day operations of the government and for appointing and supervising the City's department directors. The City Council is elected on a non-partisan basis to four-year staggered terms with three Council members elected every two years. The Mayor is elected for a two-year term. Four of the Council members are elected within their respective wards, and the Mayor and the two remaining Council members are elected at-large.

This report includes all funds of the City of Newton. The City provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of roads, streets and infrastructure; inspection and licensing functions; maintenance of grounds and buildings; municipal airport; library; cemetery and parks and recreation activities. In addition to general government activities, the municipality owns and operates enterprises for a regional landfill, water pollution control facility, parking facilities, and golf course.

ECONOMIC CONDITION AND OUTLOOK

The City of Newton worked with U.S. Motorsport Corporation to develop the Iowa Speedway. The Iowa Speedway is a \$70 million, multi-purpose entertainment, recreation and tourist attraction facility was constructed on a 225-acre site in Newton. It is a public/private partnership with its inaugural event in September 2006. The Iowa Speedway is a "Rusty Wallace Signature Racetrack", the first such signature facility in the USA, designed by a NASCAR race driver. The 7/8-mile, paved speedway is the first speedway originally constructed with the new 'soft' safety walls. It has permanent grandstand seating for 40,000 expandable, plus provision for temporary seating. It includes 22 luxury suites. Total accommodation will exceed 80,000.

The City of Newton also completed the construction of a new airport terminal building, maintenance hangar and twelve new hangars. New taxiways and tie-down areas have also been constructed. The new facilities are immediately adjacent to the area where the Iowa Speedway is located.

Newton is located on the busiest interstate highway in the United States, Interstate 80, and is 25 miles east of Interstate 35 and the Des Moines metropolitan area. It is the county seat of Jasper County.

Several businesses call Newton home resulting in a diverse and vital local economy. For example, Iowa Telecom headquartered in Newton provides local telephone service over 440 Iowa communities and operates approximately 400 exchanges throughout the state of Iowa, making it the second largest local exchange carrier (LEC) in Iowa and fifteenth largest in the United States. Iowa Telecom has over 600 employees in Iowa, approximately 160 of those are located in Newton. Iowa Telecom recently began trading on the New York Stock Exchange. Seabury & Smith is a division of Marsh & McLennan Companies, a Fortune 250 Company and operates a high-tech insurance claims center in Newton. Six banking institutions serve the City.

Newton is the home of two of the largest advertising specialty firms in the U.S., the Vernon Company and Newton Manufacturing. The Vernon Company celebrated 100 years of service to the advertising specialty world in September 2002. Several other companies which produce for national and international markets including Thombert, Inc. which makes specialized polyurethane parts and wheels for forklift trucks and the Pyramid Company which makes specialized rubber drive belts are located here.

The results of the 2000 census indicate Newton experienced a 5.3 percent growth in population between 1990 and 2000. The 2000 census population for the community is 15,579 compared to the 1990 census figure of 14,789. Newton's land area is currently 10.81 square miles.

CITY OPERATIONS

The Mayor, City Council and City staff conduct strategic planning activities on a regular basis in order to provide the City with a firm sense of direction about its future as well as to evaluate current activities. The City conducted a strategic planning workshop which was led by Patrick Callahan of the University of Iowa Public Affairs Department in 2005.

Capital Improvements Program

Much of the City's strategic goals focus on maintaining and improving the community's capital infrastructure through a comprehensive capital improvements program. Capital improvements programming requires a balancing of the City's long-term capital project needs with the City's financial plans and capabilities. Annually, the City Council reviews the priorities of the community and adopts a 6-year plan reflective of the community needs and financial conditions.

FINANCIAL INFORMATION

City administration is responsible for establishing and maintaining internal control designed to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure adequate accounting data is compiled to allow for the preparation of financial statements in conformity with the cash basis of accounting which is an other comprehensive basis of accounting. Internal control is designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls

The City maintains budgeting controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. All funds are included in the annual appropriated budget with the exception of non-expendable trust funds, the internal service fund, and agency funds. The level of budgeting control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the program level.

The City's annual budget document contains detailed spreadsheets on each of the City's eighteen funds. These spreadsheets are used to document and project the financial condition of each fund and in effect to create a quasi-accrual accounting system by setting aside encumbrances and reserves for future expenditures to help ensure that adequate funds are available to meet future obligations.

As demonstrated by the financial statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Debt Administration

At June 30, 2006, the City of Newton had a number of debt issues outstanding. These issues included \$12,755,000 of general obligation bonds, \$3,205,000 of sewer revenue capital loan notes, \$164,192 of capital leases and \$205,000 of special assessment bonds and notes. The government has maintained its A1 rating from Moody's Investors Service on general obligation bond issues. Under current state statutes, the government's general obligation debt issues are subject to a legal limitation based on 5 percent of total actual value of real property. The government's net general obligation debt of \$12,755,000 was well below the legal limit of \$34,996,362 and general obligation/TIF debt per capita equaled \$818.73.

The City looks for, and calls in, bond issues that will generate annual principal and interest savings.

Cash Management

Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, U.S. Treasury securities, and authorized mutual funds. The investment policy adopted by the City Council stresses the importance of capital preservation. The policy directives intend to minimize credit and market risks while maintaining a competitive yield on the portfolio. Accordingly, deposits were either covered by federal depository insurance or collateralized. All collateral on uninsured deposits was held either by the State Treasurer, the government, its agent, or a financial institution's trust department in the government's name. All of the investments subject to risk categorization were classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board.

Risk Management

The City is fully insured for its general and auto liability as well as public official, police professional, and ambulance professional liability. Workers' compensation coverage is provided through a statewide risk pool for local governments, the Iowa Municipalities Workers' Compensation Association (IMWCA). The City has also established a self-insurance plan for medical, dental, and prescription drug expenses and purchases specific and aggregate stop-loss coverage from HCC/Comrisk Reinsurance. Select Benefit Administrators has provided third party administration of the pool for the City since January 1, 2003.

OTHER INFORMATION

Independent Audit

State statutes require an annual audit by independent certified public accountants. The accounting firm of Nolte, Cornman & Johnson P.C. was selected for this purpose. The independent auditor's report on the general purpose financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

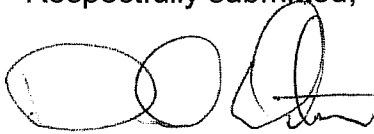
Evaluation by Moody's Investors Service

In Spring of 2006, Moody's Investors Service affirmed its A1 rating to the City of Newton's general obligation debt. In its affirmation, Moody's indicated that the assignment of the "A1 rating reflects modest but steady tax base growth, the City's strong financial operations, and a moderate debt burden with rapid payout.

Acknowledgements

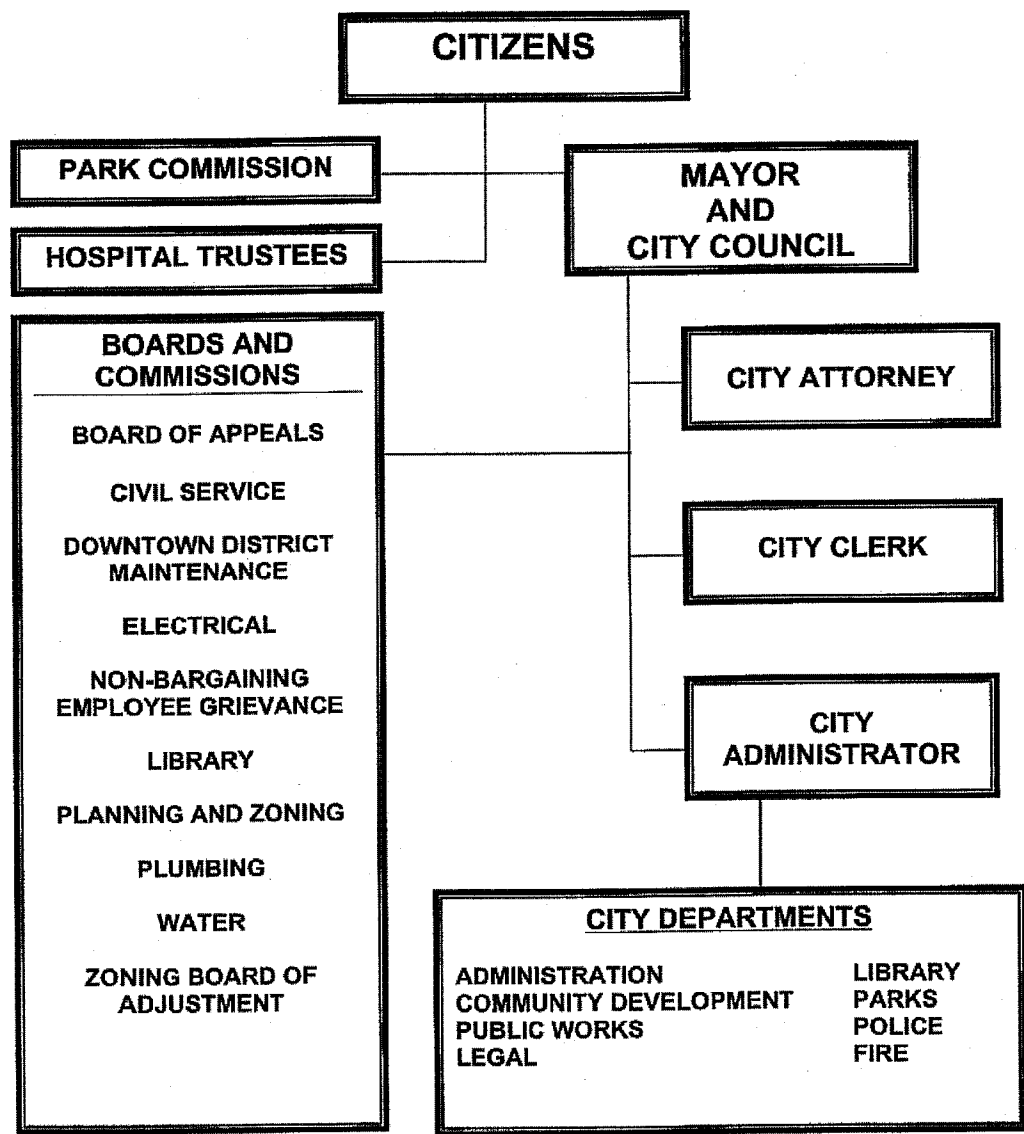
I am grateful for the support and interest of the Mayor and City Council, department directors and other management staff for their conscientiousness in planning and conducting the financial operations of the City of Newton in a responsible and progressive manner. Preparation of this report could not have been accomplished without the efficient and dedicated services of the Administration Department staff and the efficient assistance of the City's independent auditors, Nolte, Cornman & Johnson P.C.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'David Watson', with a stylized flourish at the end.

David Watson
City Administrator

CITY OF NEWTON



City of Newton, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Charles Allen	Mayor	December 31, 2007
Jon Ewing	Council-At-Large	December 31, 2009
Ron Foreman	Council-At-Large	December 31, 2007
Jean Morgan	Council-First Ward	December 31, 2007
Michael Hansen	Council-Second Ward	December 31, 2009
A. J. "Jim" Greve	Council-Third Ward	December 31, 2007
Steve Mullan	Council-Fourth Ward	December 31, 2009
David Watson	City Administrator	Appointed
Darrin T. Hamilton	City Attorney	Appointed
Candice Van Zee	City Clerk	Appointed

FINANCIAL SECTION

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Newton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Newton. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

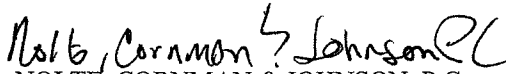
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Newton at June 30, 2006, and the respective changes in financial position – cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

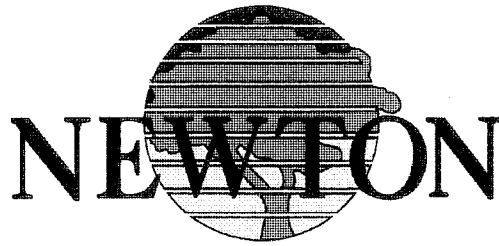
The Management's Discussion and Analysis and budgetary comparison information on pages 11 through 17 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Members American Institute & Iowa Society of Certified Public Accountants

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements that collectively comprise the financial statements of the City of Newton. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for year ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedule 1 through 5, is presented for purposes of additional analysis and is not required parts of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section tables have not been subject to the auditing procedures applied by us in the audit of the financial statements, and accordingly we express no opinion on them.


NOLTE, CORNMAN & JOHNSON, P.C.

Newton, Iowa
November 9, 2006



CITY OF NEWTON, IOWA MANAGEMENT DISCUSSION AND ANALYSIS

The City of Newton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The City's General Fund receipts of \$6,472,008 decreased \$9,535 or .15% from the FY 2005 receipts of \$6,481,543.
- General Fund property taxes increased by \$196,704 or 6.19% to \$3,374,710 over the FY 2005 tax collections of \$3,178,006.
- The City's General Fund disbursements of \$7,221,232 decreased \$21,585 or .30% from the FY 2005 disbursements of \$7,242,817.
- The City's General Fund end of year cash balance of \$2,173,788 decreased \$50,773 or 2.28% from the FY 2005 cash balance of \$2,224,561.
- There were no significant changes in the City's operations.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the government's financial activities.

The Government-wide Financial Statements consists of a statement of activities and changes in cash balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the annual budget, nonmajor governmental funds and debt obligations.

REPORTING THE CITY AS A WHOLE

The statement of activities and changes in cash balance presents information showing how the City's cash balance changed during the most recent fiscal year.

The City's governmental activities are displayed in the statement of activities and changes in the cash balance. Governmental activities include public safety public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

The business-type activities of the City include the landfill, sanitary sewer system, and other non-major enterprise funds. These activities are financed primarily by user charges.

Fund Financial Statements

The fund financial statements provide detailed information about individual, significant funds; not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to help it control and manage money for particular purposes.

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. Governmental funds are reported on the basis of cash receipts and disbursements. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Financial records and reports are prepared on the basis of when cash is received and disbursed. The government fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide statement of activities and changes in cash balance. The City maintains two Enterprise Funds to provide separate information for the landfill and sanitary sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The Internal Service Fund utilized by the City accounts for employee group health insurance.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, the City reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The City does not report capital assets or depreciation on those assets as would be required by GAAP.

Governmental Activities

The City's end of year cash balance for governmental activities of \$9,817,381 increased \$5,750,644 or 141.41% from the FY 2005 end of year cash balance of \$4,066,737.

Changes in Cash Balance of Governmental Activities (Expressed in Thousands)			
	Governmental Activities		Total Change
	2006	2005	2005-06
Receipts and Transfers:			
Charges for service and sales	\$ 2,168	2,213	-2.02%
Operating grants, contributions and restricted interest	1,473	1,823	-19.20%
Capital grants, contributions and restricted interest	537	381	40.93%
General revenues:			
Property tax	5,995	5,655	6.01%
Unrestricted investment earnings	239	54	343.78%
Bond proceeds	14,626	2,771	427.87%
Other general receipts	2,862	2,444	17.11%
Transfers	111	50	121.29%
Total receipts and transfers	28,011	15,291	83.19%
Disbursements			
Public safety	5,164	5,024	2.79%
Public works	2,141	2,293	-6.65%
Health and social services	15	40	-63.36%
Culture and recreation	1,491	1,537	-2.99%
Community and economic development	7,687	1,438	434.48%
General government	1,180	1,007	17.16%
Debt service	3,570	2,165	64.91%
Capital project	1,092	2,915	-62.53%
Total disbursements	22,340	16,420	36.05%
Increase(Decrease) in cash balance	5,671	(1,129)	602.45%
Cash Balance Beginning of Year	3,993	5,122	-22.04%
Cash Balance End of Year	\$ 9,664	3,993	142.02%

Changes in Cash Balance of Business-Type Activities (Expressed in Thousands)			
	Business-Type Activities		Total Change
	2006	2005	2005-06
Receipts and Transfers:			
Program receipts:			
Charges for service and sales:			
Landfill	\$ 1,008	1,059	-4.88%
Sewer	2,206	2,107	4.69%
Other	427	417	2.31%
General receipts:			
Unrestricted investment earnings	116	0	100.00%
Bond proceeds	0	2	-100.00%
Other general receipts	158	139	14.03%
Transfers	(111)	(50)	121.29%
Total receipts and transfers	3,804	3,675	3.52%
Disbursements and Transfers:			
Landfill	689	1,489	-53.74%
Sewer	2,075	2,258	-8.13%
Other	414	411	0.85%
Total disbursements	3,178	4,158	-23.57%
Increase(Decrease) in cash balance	626	(483)	229.55%
Cash Balance Beginning of Year	2,926	3,409	-14.17%
Cash Balance End of Year	\$ 3,552	2,926	21.41%

THE CITY'S INDIVIDUAL MAJOR FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are major reasons for the changes in cash balances from the prior year for the City's major funds.

Governmental Funds.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$2,173,788 decreased \$50,773 or 2.28% from the prior year ending cash balance of \$2,224,561.

Proprietary Funds.

- The Sewer Fund end of year cash balance of \$1,351,719 increased \$149,531 or 11.06% from the FY 2005 end of year cash balance of \$1,202,188.
- The Landfill Fund end of year cash balance of \$1,918,195 increased \$398,561 or 26.23% from the FY 2005 end of year cash balance of \$1,519,634.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the City Council annually adopts a budget following a required public notice and hearings for all funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, the City amended its operating budget once.

DEBT ADMINISTRATION

At FY2006 year-end, the City had \$27,532,270 in bonds and other long-term debt compared to \$16,328,190 last year as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	2006	2005
General obligation bonds	\$ 24,524	\$ 12,755
Special assessment bonds and notes	175	205
Capital leases	116	165
Sewer revenue capital loan notes	2,716	3,203
Total	\$ 27,532	\$ 16,328

The City's general obligation bond rating continues to be A1 rating as rated by Moody's. The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$24,524,852 is below the City's legal debt limit.

More detailed information about the City's long-term liabilities is presented in Note 3 to the financial statements.

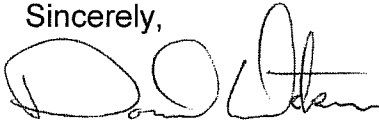
ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

The City implemented an additional one cent sales tax effect July 1, 2006. This additional revenue will provide debt relief to taxpayers, as well as funding for various programs and capital acquisitions.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact David Watson, City Administrator, 101 West 4th Street South, Newton, Iowa.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Watson', written over a horizontal line.

David Watson
City Administrator

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BASIC FINANCIAL STATEMENTS

CITY OF NEWTON, IOWA
STATEMENT OF ACTIVITIES AND CHANGES IN CASH BALANCES
YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Public safety	\$ 5,164,297	885,192	129,852	0
Public works	2,140,871	858,660	1,304,359	0
Health and social services	14,721	0	0	0
Culture and recreation	1,490,716	148,155	0	2,538
Community and economic development	7,686,675	0	10,000	475,598
General government	1,180,160	275,898	28,452	0
Debt service	3,569,991	0	0	0
Capital projects	1,092,201	0	0	58,977
Total governmental activities	22,339,632	2,167,905	1,472,663	537,113
Business-type activities:				
Landfill	688,899	1,007,630	0	0
Sewer	2,074,850	2,206,263	0	0
Golf	327,311	348,563	0	0
Parking	86,990	78,449	0	0
Total business-type activities	3,178,050	3,640,905	0	0
Total	\$ 25,517,682	5,808,810	1,472,663	537,113
General Receipts:				
Property tax levied for:				
General purposes				
Employee benefits				
Debt service				
Central business district				
Tax increment financing				
Other city tax				
Unrestricted investment earnings				
Bond proceeds, net				
Special assessments				
Miscellaneous				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
Changes in cash balances				
Cash balances beginning of year				
Cash balances end of year				

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Disbursements) Receipts		
Governmental Activities	Business-Type Activities	Total
(4,149,253)	0	(4,149,253)
22,148	0	22,148
(14,721)	0	(14,721)
(1,340,023)	0	(1,340,023)
(7,201,077)	0	(7,201,077)
(875,810)	0	(875,810)
(3,569,991)	0	(3,569,991)
(1,033,224)	0	(1,033,224)
(18,161,951)	0	(18,161,951)
0	318,731	318,731
0	131,413	131,413
0	21,252	21,252
0	(8,541)	(8,541)
0	462,855	462,855
(18,161,951)	462,855	(17,699,096)
\$ 3,374,710	0	3,374,710
1,702,080	0	1,702,080
917,832	0	917,832
367	0	367
1,691,755	0	1,691,755
328,427	46,346	374,773
238,630	115,951	354,581
14,626,482	0	14,626,482
15,647	0	15,647
750,438	0	750,438
76,202	112,100	188,302
111,101	(111,101)	0
23,833,671	163,296	23,996,967
5,671,720	626,151	6,297,871
3,991,858	2,925,180	6,917,038
\$ 9,663,578	3,551,331	13,214,909

CITY OF NEWTON, IOWA
STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:				
Property tax	\$ 3,374,710	0	1,702,080	0
Tax increment financing collections	0	0	0	1,691,755
Other city tax	252,173	0	51,544	0
Licenses and permits	225,130	0	0	0
Use of money and property	124,472	0	573	77,201
Intergovernmental	158,304	1,304,359	0	275,598
Charges for services	1,942,775	0	0	0
Special assessments	13,835	0	0	0
Miscellaneous	380,609	0	1,231	222,331
Total receipts	6,472,008	1,304,359	1,755,428	2,266,885
Disbursements:				
Governmental activities:				
Public safety	3,522,079	0	1,502,866	0
Public works	1,207,535	855,811	46,202	0
Health and social services	14,721	0	0	0
Culture and recreation	1,222,581	0	234,302	0
Community and economic development	287,210	0	29,724	7,354,162
General government	967,106	0	147,842	0
Debt service	0	0	0	0
Capital projects	0	0	0	0
Total disbursements	7,221,232	855,811	1,960,936	7,354,162
Excess(deficiency) of receipts over(under) disbursements	(749,224)	448,548	(205,508)	(5,087,277)
Other financing sources(uses):				
Bond proceeds, net	0	0	0	13,340,120
Sale of capital assets	26,020	0	0	44,150
Transfers in	1,052,153	9,500	82,787	0
Transfers out	(379,722)	(409,738)	0	(1,484,388)
Total other financing sources(uses)	698,451	(400,238)	82,787	11,899,882
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(50,773)	48,310	(122,721)	6,812,605
Cash balances beginning of year	2,224,561	81,576	(24,071)	217,029
Cash balances end of year	\$ 2,173,788	129,886	(146,792)	7,029,634

Amount reported for governmental activities in the statement of activities and changes in cash balance are different because:

Excess of receipts and other financing sources over disbursements and other financing uses

The internal service fund is used by management to charge the costs of employee health benefits to individual funds. The net loss of the internal service fund is reported with governmental activities.

Change in cash balance of governmental activities

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
917,832	0	367	5,994,989
0	0	0	1,691,755
24,710	0	0	328,427
0	0	0	225,130
20,426	15,958	6,032	244,662
0	61,515	0	1,799,776
0	0	0	1,942,775
1,812	0	0	15,647
0	343,343	12,924	960,438
964,780	420,816	19,323	13,203,599
0	0	0	5,024,945
0	0	0	2,109,548
0	0	0	14,721
0	0	0	1,456,883
0	0	6,375	7,677,471
0	0	0	1,114,948
3,569,991	0	0	3,569,991
0	1,092,201	0	1,092,201
3,569,991	1,092,201	6,375	22,060,708
(2,605,211)	(671,385)	12,948	(8,857,109)
1,286,362	0	0	14,626,482
0	0	0	70,170
1,037,609	9,900	0	2,191,949
0	0	(7,000)	(2,280,848)
2,323,971	9,900	(7,000)	14,607,753
(281,240)	(661,485)	5,948	5,750,644
254,383	854,636	458,623	4,066,737
(26,857)	193,151	464,571	9,817,381
			\$ 5,750,644
			(78,924)
			<u>\$ 5,671,720</u>

CITY OF NEWTON, IOWA
 STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Enterprise Funds				Internal Service Fund Group Insurance
	Landfill	Sewer	Other Nonmajor Enterprise Funds	Total	
Receipts:					
Charges for services	\$ 1,004,324	2,201,492	425,557	3,631,373	1,622,806
Use of money and property	59,200	48,418	8,333	115,951	961
Other city tax	0	0	46,346	46,346	0
Miscellaneous	3,306	4,771	1,455	9,532	0
Total receipts	1,066,830	2,254,681	481,691	3,803,202	1,623,767
Disbursements:					
Business-type activities:					
Operations	650,659	1,353,576	414,301	2,418,536	0
Debt service	0	582,723	0	582,723	0
Capital projects	38,240	138,551	0	176,791	0
	688,899	2,074,850	414,301	3,178,050	0
Governmental activities:					
Non-program	0	0	0	0	1,902,691
Total disbursements	688,899	2,074,850	414,301	3,178,050	1,902,691
Excess (deficiency) of receipts over (under) disbursements	377,931	179,831	67,390	625,152	(278,924)
Other financing sources (uses):					
Sale of capital assets	112,100	0	0	112,100	0
Transfers in	0	0	61,170	61,170	200,000
Transfers out	(91,470)	(30,300)	(50,501)	(172,271)	0
Total other financing sources (uses)	20,630	(30,300)	10,669	999	200,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	398,561	149,531	78,059	626,151	(78,924)
Cash balances beginning of year	1,519,634	1,202,188	203,358	2,925,180	(74,879)
Cash balances end of year	\$ 1,918,195	1,351,719	281,417	3,551,331	(153,803)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CITY OF NEWTON, IOWA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

The City of Newton, Iowa, was incorporated in 1857 and operates under the Mayor/Council/Administrator form of government. The City of Newton provides a broad range of services to citizens, including general government, public safety, streets, sanitation, and health, cultural and park facilities, and social services. It also operates the airport, landfill, parking facilities, and sewer utilities.

Reporting Entity

For financial reporting purposes, the City of Newton, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. These criteria also include organizations that are fiscally dependent on the City.

The following component units are entities which are legally separate from the City. However, the financial transactions of these component units have not been displayed because they use a different basis of accounting.

The Newton Municipal Waterworks (Waterworks) is a municipal utility of the City of Newton, Iowa, which is operated under Chapter 338 of the Code of Iowa and the Newton City Code. The Waterworks is legally separate from the City but has the potential to provide specific benefits to, or impose specific burdens on the City. The Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks has been audited separately. Complete financial statements can be obtained from the Waterwork's administrative office.

Skiff Medical Center (Medical Center) is a municipal hospital of the City of Newton, Iowa, organized under Chapter 392 of the Code of Iowa, and is governed by a five-member board elected by the citizens of Newton. The Medical Center is fiscally dependent on the City because general obligation bond issuance authorizations are approved by the City Council, and the liability for the general obligation bonds remains with the City. The Medical Center has been audited separately by other auditors. Complete financial statements can be obtained from the Medical Center's administrative office.

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Jointly Governed Organizations

The City also participates in several jointly governed organizations that provides goods or services to the citizenry of the city but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Poweshiek-Jasper County Task Force, the Jasper County Joint E911 Service Board, and the Jasper County Assessor's Conference Board.

Government-wide Financial Statements

The government-wide financial statement (i.e., the statement of activities and changes in cash balances) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities and changes in cash balances demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Tax and other items not properly included among program receipts are reported instead as general receipts.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

(continued on next page)

Special Revenue Funds:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the payment of employee benefits funded by the employee benefit property tax levy.

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Additionally, the City reports the following major proprietary funds:

The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supposed by user charges.

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except permanent funds, the internal service fund, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund or fund type. These ten functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities, and non-program.

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Property Taxes

By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. The levy or lien date is the date that the tax asking is certified by the City to the County. Property taxes are levied as of July 1 on property values assessed as of January 1 of the previous year. The tax levy is divided into two billings. The first billing is mailed on July 1 and the second billing is mailed on January 1. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending three months after the tax bill mailing. On these dates (September 30 and March 31), the bill becomes delinquent, and penalties and interest may be assessed by the governments.

Note 2 - Cash and Investments

The City's deposits in banks at June 30, 2006, were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit, or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no assets that were classified as investments at June 30, 2006.

Note 3 - Bonds and Notes Payable

Annual debt service requirements to maturity for the City's indebtedness are as follows:

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Year Ending June 30,	General		Sewer Revenues		Special Assessment	
	Obligation Bonds		Capital Loan Notes		Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 1,690,000	\$ 939,362	\$ 397,000	\$ 491,360	\$ 35,000	\$ 12,300
2008	1,470,000	852,154	295,000	410,455	35,000	9,840
2009	1,085,000	795,021	308,000	340,277	35,000	7,380
2010	1,120,000	750,811	100,000	288,216	35,000	4,920
2011	1,095,000	703,500	103,000	239,936	35,000	2,460
2012	1,135,000	657,600	107,000	196,178	-	-
2013	920,000	608,174	110,000	149,443	-	-
2014	5,229,852	566,490	113,000	114,808	-	-
2015	1,190,000	495,366	116,000	78,745	-	-
2016	1,135,000	443,504	120,000	56,540	-	-
2017	990,000	392,902	124,000	38,976	-	-
2018	1,040,000	349,487	127,000	30,216	-	-
2019	950,000	303,652	131,000	20,880	-	-
2020	815,000	261,581	135,000	16,950	-	-
2021	850,000	223,888	139,000	12,900	-	-
2022	890,000	183,512	143,000	8,730	-	-
2023	930,000	141,238	148,000	4,440	-	-
2024	975,000	97,063	-	-	-	-
2025	1,015,000	50,750	-	-	-	-
Total	\$ 24,524,852	\$ 8,816,055	\$ 2,716,000	\$ 2,499,050	\$ 175,000	\$ 36,900

Year Ending June 30,	Capital Leases		Total	
	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest
2007	\$ 44,407	\$ 4,640	\$ 2,166,407	1,447,662
2008	72,011	2,989	1,872,011	1,275,438
2009	-	-	1,428,000	1,142,678
2010	-	-	1,255,000	1,043,947
2011	-	-	1,233,000	945,896
2012	-	-	1,242,000	853,778
2013	-	-	1,030,000	757,617
2014	-	-	5,342,852	681,298
2015	-	-	1,306,000	574,111
2016	-	-	1,255,000	500,044
2017	-	-	1,114,000	431,878
2018	-	-	1,167,000	379,703
2019	-	-	1,081,000	324,532
2020	-	-	950,000	278,531
2021	-	-	989,000	236,788
2022	-	-	1,033,000	192,242
2023	-	-	1,078,000	145,678
2024	-	-	975,000	97,063
2025	-	-	1,015,000	50,750
Total	\$ 116,418	\$ 7,629	\$ 27,532,270	\$ 11,359,634

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The resolutions providing for the issuance of the sewer revenue capital loan notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the Sewer Fund, and the note holders hold a lien on the future earnings of the fund.
- b) Establish a Subordinated Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the notes on the next succeeding principal payment date.

Note 4 - Variable Interest Rate on 2006A Series G.O. Bonds

During the year ended June 30, 2006, the City borrowed money to finance urban renewal. The money borrowed is at a variable interest rate with a cap at prime plus 1.25%. At June 30, 2006 the rate was 9.50%. The maximum amount of credit available to the City is \$3,721,500. It is expected that the U.S. Motorsport Corporation will be reimbursing the City for an imposed \$1 surcharge on all admission tickets sold, as well as interest on \$2 million of the line of credit used for economic development grants. Details of the City's borrowings are as follows:

Balance Beginning of Year	Increases	Decreases	Balance End of Year
\$ 0	3,644,852	0	3,644,852

Note 5 - Employment Retirement Systems

MFPRSI - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan) which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa, 50322.

Plan members are required to contribute 9.35% of earnable compensation, and the City's contribution rate may not be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contributions to the Plan for the years ended June 30, 2006, 2005 and 2004 were \$727,235, \$664,957, and \$535,181 respectively, which met the required minimum contribution for each year.

IPERS - The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to

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plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary, and the City is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$163,888, \$169,109, and \$174,249, respectively, equal to the required contributions for each year.

Note 6 - Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 609,202</u>

Upon termination, retirement, or death, City employees are not paid for unused sick leave.

This liability has been computed based on rates of pay in effect at June 30, 2006.

Note 7 - Landfill Closure and Postclosure Care

The City of Newton has entered into an agreement with several other municipalities as allowed under Section 28E of the Code of Iowa to provide for economical and environmentally responsible disposal of solid waste and establish permanent environmental responsibility for the Newton Sanitary Landfill.

State and federal laws and regulations require the Newton Sanitary Landfill to place a final cover on its landfill site when filled and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City has estimated a total liability for the closure and postclosure of the landfill of approximately \$4,003,500. This amount is based upon the use of 88% of the estimated total capacity. The remaining \$517,623 will be recognized as the remaining capacity is filled.

These amounts are based upon what it would cost to perform all closure and postclosure care in 2006. The City expects to close the existing area of the landfill in 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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As specified in the 28E agreement, the City of Newton is responsible for only 55.6%, or \$2,225,946, of the total closure and postclosure cost of the landfill. The City's proportionate share is updated annually in accordance with Section 2.2(b) of the Landfill Intergovernmental Agreement.

The City has met the closure and postclosure financial assurance requirements issued by the Iowa Department of Natural Resources by complying with the local government financial test.

Note 8 - Transfers

The details of transfers for the year ended June 30, 2006, is as follows:

	Transfers in			
	General Fund	Road Use Tax Fund	Employee Benefits Fund	Debt Service Fund
Transfers out				
General fund	\$ -	\$ -	\$ 34,557	\$ 135,265
Road use tax fund	375,955	-	24,830	8,953
Tax increment financing fund	618,394	-	13,604	852,390
Nonmajor governmental funds	7,000	-	-	-
Landfill fund	25,402	-	4,898	-
Sewer fund	25,402	-	4,898	-
Nonmajor enterprise funds	-	9,500	-	41,001
Total	<u>\$ 1,052,153</u>	<u>\$ 9,500</u>	<u>\$ 82,787</u>	<u>\$ 1,037,609</u>

	Transfers in			
	Capital Projects Fund	Internal Service Fund	Nonmajor Enterprise Funds	Total
Transfers out				
General fund	\$ 9,900	\$ 200,000	\$ -	\$ 379,722
Road use tax fund	-	-	-	409,738
Tax increment financing fund	-	-	-	1,484,388
Nonmajor governmental funds	-	-	-	7,000
Landfill fund	-	-	61,170	91,470
Sewer fund	-	-	-	30,300
Nonmajor enterprise funds	-	-	-	50,501
Total	<u>\$ 9,900</u>	<u>\$ 200,000</u>	<u>\$ 61,170</u>	<u>\$ 2,453,119</u>

The transfer to the General Fund from the Road Use Tax Fund represents the reimbursement of disbursements that related to road use (traffic control, street lighting, storm sewer, sidewalks, etc.).

The transfer to the General Fund from the Tax Increment Financing (TIF) Fund represents the reimbursement of disbursements of the TIF administration and payment of loans of prior years to the TIF fund.

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The transfer to the General Fund from the Nonmajor Governmental Funds - Permanent, Perpetual Care Fund represents the reimbursement of part time mowing positions at the Cemetery.

The transfer to the General Fund from the Landfill Fund represents the reimbursement of disbursements for the public works director and secretary.

The transfer to the General Fund from the Sewer Fund represents the reimbursement of disbursements for the public works director and secretary.

The transfer to the Employee Benefits Fund from the General Fund represents the reimbursement of disbursements for the benefits of General Fund employees.

The transfer to the Employee Benefits Fund from the Road Use Tax Fund represents the reimbursement of disbursements for the benefits of the public works director and secretary.

The transfer to the Employee Benefits Fund from the Tax Increment Financing Fund represents the reimbursement of disbursements for the benefits of the economic development director.

The transfer to the Employee Benefits Fund from the Landfill Fund represents the reimbursement of disbursements for the benefits of the public works director and secretary.

The transfer to the Employee Benefits Fund from the Sewer Fund represents the reimbursement of disbursements for the benefits of the public works director and secretary.

The transfers to the Debt Service Fund are for the payment of debt.

The transfer to the Capital Projects Fund from the General Fund represents the reimbursement of disbursements for additional niches at the Cemetery.

The transfer to the Internal Service Fund from the General Fund represents a supplement increase needed for extra costs assessed due to increases in insurance premiums.

The transfer to the Nonmajor Enterprise Funds represents the transfer to the Landfill Post Closure Fund from the Landfill Fund to set aside a balance to be used to pay for future costs for the closing of the current landfill.

Note 9 - Risk Management

The City of Newton is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance.

The City has established a Group Insurance Fund for insuring health benefits provided to City employees and covered dependents which are included in the Internal Service fund type. Health benefits were self-

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insured up to a specific stop loss amount of \$65,000, and an aggregate stop loss of approximately \$1,000,000 for 2006. Coverage from a private insurance company is maintained for losses in excess of the stop loss amount. All claims handling procedures are performed by a third-party claims administrator. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Employees paid from all funds of the City participate in the program, and the City makes payments to the Group Insurance Fund on their behalf based on actuarial estimates of the amounts needed to pay prior-year and current-year claims.

Note 10 - Deficit Fund Balances

The Internal Service Fund, Group Insurance, had a deficit balance of \$153,803 at June 30, 2006. The City hopes to eliminate the deficit by increasing the amounts transferred to make the payments to the insurance agent.

The Debt Service Fund had a deficit balance of \$26,857 at June 30, 2006. The City hopes to eliminate the deficit by increasing the amounts transferred to make the debt payments.

The Special Revenue Fund, Employee Benefits Fund, had a deficit balance of \$146,792 at June 30, 2006. The City hopes to eliminate the deficit by increasing the amounts transferred to make the payments to the insurance agent.

Note 11 - Commitments and Contingencies

The City's corporate counsel reported that as of June 30, 2006, various claims and lawsuits were on file against the City. The corporate counsel estimated that all potential settlements against the City not covered by insurance would not materially affect the financial position of the City. The City has authority to levy additional taxes (outside the regular limit) to cover uninsured judgments against the City.

In April of 2003, the City approved a development agreement for the creation of a motor speedway. As part of the agreement, the City is to award an economic development grant not to exceed \$3,300,000. In addition, the City has granted a three year 100% property tax abatement, followed by a two year property tax rebate. The City has also committed to various public improvements, including widening and improving streets and construction water mains, sanitary sewers and storm sewers. The cost of the improvements is not known as of June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWTON, IOWA
BUDGETARY COMPARISON OF SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET TO ACTUAL - ALL GOVERNMENTAL FUNDS AND
AND PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 5,994,989	0	0
Tax increment financing collections	1,691,755	0	0
Other city tax	328,427	46,346	0
Licenses and permits	225,130	0	0
Use of money and property	244,662	116,912	961
Intergovernmental	1,799,776	0	0
Charges for services	1,942,775	5,254,179	1,622,806
Special assessments	15,647	0	0
Miscellaneous	960,438	9,532	0
Total receipts	13,203,599	5,426,969	1,623,767
Disbursements:			
Public safety	5,024,945	0	0
Public works	2,109,548	0	0
Health and social services	14,721	0	0
Culture and recreation	1,456,883	0	0
Community and economic development	7,677,471	0	0
General government	1,114,948	0	0
Debt service	3,569,991	0	0
Capital projects	1,092,201	0	0
Business-type	0	3,178,050	0
Non-program	0	1,902,691	1,902,691
Total disbursements	22,060,708	5,080,741	1,902,691
Excess(deficiency) of receipts over(under) disbursements	(8,857,109)	346,228	(278,924)
Other financing sources(uses), net	14,607,753	200,999	200,000
Excess(deficiency) of receipts and other financing sources over(under) disbursements and other financing uses	5,750,644	547,227	(78,924)
Balance beginning of year	4,066,737	2,850,301	(74,879)
Balance end of year	\$ 9,817,381	3,397,528	(153,803)

SEE NOTES TO FINANCIAL STATEMENTS.

Net	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,994,989	5,987,798	5,972,148	22,841
1,691,755	1,572,674	15,509,274	(13,817,519)
374,773	297,046	391,046	(16,273)
225,130	199,400	215,850	9,280
360,613	2,511,534	347,137	13,476
1,799,776	2,722,460	1,548,293	251,483
5,574,148	3,205,882	5,467,389	106,759
15,647	48,493	13,993	1,654
969,970	504,318	1,074,649	(104,679)
17,006,801	17,049,605	30,539,779	(13,532,978)
5,024,945	4,735,107	5,140,260	115,315
2,109,548	2,144,547	2,252,530	142,982
14,721	218,118	918,118	903,397
1,456,883	1,419,154	1,524,994	68,111
7,677,471	828,160	11,918,579	4,241,108
1,114,948	1,073,402	1,190,902	75,954
3,569,991	2,206,415	3,631,900	61,909
1,092,201	1,150,200	2,146,888	1,054,687
3,178,050	4,047,976	4,231,132	1,053,082
0	0	0	0
25,238,758	17,823,079	32,955,303	7,716,545
(8,231,957)	(773,474)	(2,415,524)	(5,816,433)
14,608,752	55,200	1,437,227	13,171,525
6,376,795	(718,274)	(978,297)	7,355,092
6,842,159	9,574,883	9,574,883	(2,732,724)
13,218,954	8,856,609	8,596,586	4,622,368

CITY OF NEWTON, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except permanent funds, the internal service fund, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major class disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, and the capital projects fund. Although the budgeted document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. During the year, the budget was amended increasing budgeted disbursements by \$15,132,224. This budget amendment was reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NEWTON, IOWA
 COMBINING SCHEDULE OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue		Permanent		Total
	Central Business District	Community Development Block Grant	Perpetual Care	Fred Maytag Park Endowment	
Receipts:					
Property tax	\$ 367	0	0	0	367
Use of money and property	0	0	6,032	0	6,032
Miscellaneous	0	12,924	0	0	12,924
Total receipts	367	12,924	6,032	0	19,323
Disbursements:					
Governmental activities:					
Community and economic development	6,375	0	0	0	6,375
Total disbursements	6,375	0	0	0	6,375
Excess(deficiency) of receipts over(under) disbursements	(6,008)	12,924	6,032	0	12,948
Other financing uses:					
Transfers out	0	0	(7,000)	0	(7,000)
Total other financing uses	0	0	(7,000)	0	(7,000)
Excess(deficiency) of revenues over(under) disbursements and other financing uses	(6,008)	12,924	(968)	0	5,948
Cash balances beginning of year	15,322	12,554	197,427	233,320	458,623
Cash balances end of year	\$ 9,314	25,478	196,459	233,320	464,571

CITY OF NEWTON, IOWA
 COMBINING SCHEDULE OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
 NONMAJOR ENTERPRISE FUNDS
 YEAR ENDED JUNE 30, 2006

	Landfill Post Closure	Golf	Parking	Total
Receipts:				
Charges for services	\$ 0	347,108	78,449	425,557
Use of money and property	7,041	0	1,292	8,333
Other city tax	0	46,346	0	46,346
Miscellaneous	0	1,455	0	1,455
Total receipts	7,041	394,909	79,741	481,691
Disbursements:				
Business-type activities:				
Operations	0	327,311	86,990	414,301
Total disbursements	0	327,311	86,990	414,301
Excess(deficiency) of receipts over(under) disbursements	7,041	67,598	(7,249)	67,390
Other financing sources(uses):				
Transfers in	61,170	0	0	61,170
Transfers out	0	(41,001)	(9,500)	(50,501)
Total other financing sources(uses)	61,170	(41,001)	(9,500)	10,669
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	68,211	26,597	(16,749)	78,059
Cash balances beginning of year	184,962	(23,573)	41,969	203,358
Cash balances end of year	\$ 253,173	3,024	25,220	281,417

CITY OF NEWTON, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
1993A Series, Street and storm sewer improvements and urban renewal	6/1/1993	5.05-5.60 %	\$ 585,000
1995B Series, Urban renewal	6/1/1995	7.00-7.25	580,000
1997 Series, Cementary, airport park, and street improvements	6/1/1997	5.00-5.35	2,495,000
1999A Series, Street and park improvements and equipment	6/1/1999	4.25-4.50	1,440,000
1999B Series, Urban renewal	6/1/1999	6.10-6.85	720,000
2001A Series, Public improvements and equipment	5/24/2001	3.80-5.00	2,040,000
2001B Series, Urban renewal	5/24/2001	5.85-6.40	235,000
2001C Series, Refunding	5/24/2001	3.80-4.05	665,000
2002A Series, Refunding	5/29/2002	3.00-3.88	2,225,000
2002B Series, Refunding	11/1/2002	2.50-3.75	1,785,000
2003A Series, Public improvements and equipment	3/1/2003	1.30-4.25	1,515,000
2003B Series, Urban renewal	3/1/2003	4-10-5.20	725,000
2004A Series, Refunding	1/1/2004	1.70-3.75	1,060,000
2004B Series, Public improvements and equipment	9/15/2004	3.00-4.10	1,665,000
2004C Series, Public improvements and equipment	9/15/2004	3.25-5.10	1,135,000
2006A Series, Urban renewal	2/1/2006	9.50*	3,644,852
2006B Series, Iowa Speedway infrastructure	5/16/2006	4.25-5.00	9,700,000
2006C Series, Refunding	4/28/2006	3.55-3.80	1,290,000
Total			
Sewer Revenue Capital Loan Notes:			
2002 Sewer	4/3/2002	3.00 %	\$ 2,111,497
2003 Sewer, Refunding	3/6/2003	1.95-3.85	1,890,000
Total			
Special Assessment Capital Loan Notes:			
2001D Series	5/24/2001	7.70 %	\$ 245,000
2001E Series	5/24/2001	5.35	75,000
Total			
Capital Leases:			
Dump Truck	1/5/2002	5.52 %	\$ 56,934
Ambulance	4/1/2003	4.15	257,790
Total			

Note: * Bond issued with variable interest rate with cap at prime + 1.25%.
At June 30, 2006 the rate was 9.50%.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 155,000	\$ -	\$ 155,000	\$ 0	\$ 7,750	\$ -
285,000	-	50,000	235,000	20,560	-
1,335,000	-	1,335,000	0	69,053	-
935,000	-	100,000	835,000	40,733	-
525,000	-	45,000	480,000	34,218	-
1,620,000	-	115,000	1,505,000	75,495	-
175,000	-	20,000	155,000	10,908	-
130,000	-	130,000	0	5,265	-
890,000	-	390,000	500,000	34,000	-
810,000	-	255,000	555,000	28,043	-
1,310,000	-	80,000	1,230,000	46,053	-
725,000	-	65,000	660,000	33,653	-
1,060,000	-	125,000	935,000	30,773	-
1,665,000	-	-	1,665,000	60,286	-
1,135,000	-	-	1,135,000	50,200	-
-	3,644,852	-	3,644,852	-	-
-	9,700,000	-	9,700,000	-	-
-	1,290,000	-	1,290,000	-	-
<u>\$ 12,755,000</u>	<u>\$ 14,634,852</u>	<u>\$ 2,865,000</u>	<u>\$ 24,524,852</u>	<u>\$ 546,990</u>	<u>\$ -</u>
\$ 2,088,000	\$ -	\$ 87,000	\$ 2,001,000	\$ 62,700	\$ -
1,115,000	-	400,000	715,000	31,023	-
<u>\$ 3,203,000</u>	<u>\$ -</u>	<u>\$ 487,000</u>	<u>\$ 2,716,000</u>	<u>\$ 93,723</u>	<u>\$ -</u>
\$ 150,000	\$ -	\$ 25,000	\$ 125,000	\$ 11,550	\$ -
55,000	-	5,000	50,000	2,943	-
<u>\$ 205,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 175,000</u>	<u>\$ 14,493</u>	<u>\$ -</u>
\$ 18,668	\$ -	\$ 12,274	\$ 6,394	\$ 718	\$ -
146,522	-	36,498	110,024	6,081	-
<u>\$ 165,190</u>	<u>\$ -</u>	<u>\$ 48,772</u>	<u>\$ 116,418</u>	<u>\$ 6,799</u>	<u>\$ -</u>

CITY OF NEWTON, IOWA
BONDS AND NOTE MATURITIES
JUNE 30, 2006

Year Ending June 30,	General Obligation Bonds					
	1995B Series		1999A Series		1999B Series	
	Issued June 1, 1995		Issued June 1, 1999		Issued June 1, 1999	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	7.20 %	\$ 55,000	4.25 %	\$ 100,000	6.20 %	\$ 50,000
2008	7.25	55,000	4.25	100,000	6.30	50,000
2009	7.25	60,000	4.25	105,000	6.35	55,000
2010	7.25	65,000	4.30	110,000	6.45	55,000
2011	-	-	4.40	110,000	6.55	60,000
2012	-	-	4.50	100,000	6.70	65,000
2013	-	-	4.50	105,000	6.80	70,000
2014	-	-	4.50	105,000	6.85	75,000
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
		<u>\$ 235,000</u>		<u>\$ 835,000</u>		<u>\$ 480,000</u>

Year Ending June 30,	General Obligation Bonds					
	2001A Series		2001B Series		2002A Series	
	Issued May 24, 2001		Issued May 24, 2001		Issued May 29, 2002	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	4.50 %	\$ 120,000	6.10 %	\$ 20,000	3.88 %	\$ 410,000
2008	4.50	125,000	6.15	25,000	3.88	90,000
2009	4.50	135,000	6.20	25,000	-	-
2010	4.50	140,000	6.30	25,000	-	-
2011	4.50	145,000	6.35	30,000	-	-
2012	4.60	155,000	6.40	30,000	-	-
2013	4.70	160,000	-	-	-	-
2014	4.80	165,000	-	-	-	-
2015	4.90	175,000	-	-	-	-
2016	5.00	185,000	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
		<u>\$ 1,505,000</u>		<u>\$ 155,000</u>		<u>\$ 500,000</u>

(continued)

CITY OF NEWTON, IOWA
BONDS AND NOTE MATURITIES
JUNE 30, 2006

Year Ending June 30,	General Obligation Bonds					
	2002B Series		2003A Series		2003B Series	
	Issued November 1, 2002		Issued March 1, 2003		Issued March 1, 2003	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	3.50 %	\$ 270,000	2.30 %	\$ 85,000	4.10 %	\$ 70,000
2008	3.75	285,000	2.65	85,000	4.10	75,000
2009	-	-	2.95	90,000	4.10	75,000
2010	-	-	3.20	90,000	4.50	80,000
2011	-	-	3.40	95,000	4.75	85,000
2012	-	-	3.65	100,000	5.00	90,000
2013	-	-	3.80	105,000	5.10	90,000
2014	-	-	4.00	105,000	5.20	95,000
2015	-	-	4.00	110,000	-	-
2016	-	-	4.10	115,000	-	-
2017	-	-	4.20	120,000	-	-
2018	-	-	4.25	130,000	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
		<u>\$ 555,000</u>		<u>\$ 1,230,000</u>		<u>\$ 660,000</u>

Year Ending June 30,	General Obligation Bonds					
	2004A Series		2004B Series		2004C Series	
	Issued January 1, 2004		Issued September 15, 2004		Issued September 15, 2004	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	2.15 %	\$ 115,000	3.00 %	\$ 20,000	3.25 %	\$ 120,000
2008	2.45	110,000	3.00	110,000	3.70	125,000
2009	2.70	105,000	3.00	115,000	4.10	130,000
2010	2.90	105,000	3.25	120,000	4.30	135,000
2011	3.20	100,000	3.25	125,000	4.60	145,000
2012	3.45	100,000	3.50	130,000	4.80	150,000
2013	3.55	100,000	3.50	130,000	5.00	160,000
2014	3.65	100,000	3.63	135,000	5.10	170,000
2015	3.75	100,000	3.75	145,000	-	-
2016	-	-	3.88	150,000	-	-
2017	-	-	4.00	155,000	-	-
2018	-	-	4.10	160,000	-	-
2019	-	-	4.10	170,000	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
2025	-	-	-	-	-	-
		<u>\$ 935,000</u>		<u>\$ 1,665,000</u>		<u>\$ 1,135,000</u>

(continued)

CITY OF NEWTON, IOWA
BONDS AND NOTE MATURITIES
JUNE 30, 2006

Year Ending June 30,	General Obligation Bonds					
	2006A Series		2006B Series		2006C Series	
	Issued May 15, 2006		Issued May 15, 2006		Issued April 28, 2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	9.50 %	\$ -	4.25 %	\$ -	3.55 %	\$ 255,000
2008	9.50	-	4.25	-	3.60	235,000
2009	9.50	-	4.25	-	3.65	190,000
2010	9.50	-	4.25	-	3.70	195,000
2011	9.50	-	4.25	-	3.75	200,000
2012	9.50	-	4.25	-	3.80	215,000
2013	9.50	-	4.25	-	-	-
2014	9.50	3,644,852	4.25	635,000	-	-
2015	-	-	4.50	660,000	-	-
2016	-	-	4.50	685,000	-	-
2017	-	-	4.50	715,000	-	-
2018	-	-	4.50	750,000	-	-
2019	-	-	4.50	780,000	-	-
2020	-	-	4.63	815,000	-	-
2021	-	-	4.75	850,000	-	-
2022	-	-	4.75	890,000	-	-
2023	-	-	4.75	930,000	-	-
2024	-	-	4.75	975,000	-	-
2025	-	-	5.00	1,015,000	-	-
		<u>\$ 3,644,852</u>		<u>\$ 9,700,000</u>		<u>\$ 1,290,000</u>

General Obligation Bonds

Year Ending June 30,	Total
2007	\$ 1,690,000
2008	1,470,000
2009	1,085,000
2010	1,120,000
2011	1,095,000
2012	1,135,000
2013	920,000
2014	5,229,852
2015	1,190,000
2016	1,135,000
2017	990,000
2018	1,040,000
2019	950,000
2020	815,000
2021	850,000
2022	890,000
2023	930,000
2024	975,000
2025	1,015,000
	<u>\$ 24,524,852</u>

(continued)

CITY OF NEWTON, IOWA
BONDS AND NOTE MATURITIES
JUNE 30, 2006

Year Ending June 30,	Sewer Revenue Capital Loan Notes				
	Issued April 3, 2002		Issued May 24, 2001		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	3.00 %	\$ 92,000	2.79-3.00 %	\$ 305,000	\$ 397,000
2008	3.00	95,000	3.20-3.40	200,000	295,000
2009	3.00	98,000	3.50-3.85	210,000	308,000
2010	3.00	100,000	-	-	100,000
2011	3.00	103,000	-	-	103,000
2012	3.00	107,000	-	-	107,000
2013	3.00	110,000	-	-	110,000
2014	3.00	113,000	-	-	113,000
2015	3.00	116,000	-	-	116,000
2016	3.00	120,000	-	-	120,000
2017	3.00	124,000	-	-	124,000
2018	3.00	127,000	-	-	127,000
2019	3.00	131,000	-	-	131,000
2020	3.00	135,000	-	-	135,000
2021	3.00	139,000	-	-	139,000
2022	3.00	143,000	-	-	143,000
2023	3.00	148,000	-	-	148,000
		<u>\$ 2,001,000</u>		<u>\$ 715,000</u>	<u>\$ 2,716,000</u>

Year Ending June 30,	Special Assessment Capital Loan Notes				
	2001D Series		2001E Series		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	7.70 %	\$ 25,000	5.35 %	\$ 10,000	\$ 35,000
2008	7.70	25,000	5.35	10,000	35,000
2009	7.70	25,000	5.35	10,000	35,000
2010	7.70	25,000	5.35	10,000	35,000
2011	7.70	25,000	5.35	10,000	35,000
		<u>\$ 125,000</u>		<u>\$ 50,000</u>	<u>\$ 175,000</u>

Year Ending June 30,	Capital Leases				
	Dump Truck		Ambulances		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	5.52 %	\$ 6,395	4.15 %	\$ 38,012	44,407
2008	-	-	4.15	72,012	72,012
		<u>\$ 6,395</u>		<u>\$ 110,024</u>	<u>\$ 116,419</u>

CITY OF NEWTON, IOWA
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 YEAR ENDED JUNE 30, 2006

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 5,994,989	5,654,908	5,758,479	6,457,087
Tax increment financing collections	1,691,755	1,508,311	872,463	979,530
Other city tax	328,427	314,247	322,489	378,353
Licenses and permits	225,130	161,605	171,658	299,071
Use of money and property	244,662	192,121	210,000	143,217
Intergovernmental	1,799,776	2,203,808	2,458,778	2,734,237
Charges for services	1,942,775	1,905,605	1,707,917	1,036,520
Special assessments	15,647	7,123	20,695	99,794
Miscellaneous	960,438	440,812	588,492	557,839
Total receipts	<u>\$ 13,203,599</u>	<u>12,388,540</u>	<u>12,110,971</u>	<u>12,685,648</u>
Disbursements:				
Governmental activities:				
Public safety	\$ 5,024,945	4,977,075	4,805,464	4,541,594
Public works	2,109,548	2,282,945	2,159,562	1,982,602
Health and social services	14,721	40,177	287,589	82,405
Culture and recreation	1,456,883	1,525,350	1,271,987	1,603,472
Community and economic development	7,677,471	1,435,070	999,778	704,597
General government	1,114,948	985,365	1,018,977	1,104,868
Debt service	3,569,991	2,164,850	2,449,921	2,440,529
Capital projects	1,092,201	2,915,109	975,263	1,036,483
Total disbursements	<u>\$ 22,060,708</u>	<u>16,325,941</u>	<u>13,968,541</u>	<u>13,496,550</u>

COMPLIANCE SECTION

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Newton, Iowa as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Newton, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newton, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Newton, Iowa and other parties to whom City of Newton, Iowa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Newton, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

November 9, 2006

CITY OF NEWTON, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has the ability to enter cash receipts, reconcile bank accounts, reconcile investments, and make entries to the general ledger.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult and the City has taken some steps to help minimize this problem. While the individual mentioned above has the ability to perform each of the functions listed, she is not doing so on a daily basis. However, the City should continually review its control procedures to obtain the maximum internal control possible under the circumstances, and management needs to be aware of the importance of segregating duties when assigning job responsibilities.

Response - The City is aware of the auditor's recommendation and has made a number of changes in its practices since this issue was first identified in the 1995 audit. Given the size of our administration staff compared to the range of City administrative responsibilities, some overlay of duties is necessary. The City Administrator and Director of Administrative Services are currently exploring ways to have more segregation of duties in the general administrative office.

Conclusion - Response accepted.

CITY OF NEWTON, IOWA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget - City disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that fail to meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-06 Business Transactions - There were no business transactions between the City and City officials or employees that appear to represent a conflict of interest.
- II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-06 Revenue Bonds - No instances of non-compliance with the provisions of the City's revenue bond resolutions were noted.
- II-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the City's investment policy.
- II-I-06 Solid Waste Fees Retainage - The City used or retained the solid waste fees in accordance with Chapter 455B.310(2) of the Code of Iowa.
- II-J-06 Financial Condition - The City had a deficit cash balance of \$146,792 in the Special Revenue - Employee Benefit Fund. The City had a deficit cash balance of \$153,803 in the Internal Service Fund, Group Insurance Fund. The City had a deficit cash balance of \$26,857 in the Debt Service Fund.

Recommendation - The City should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor the deficits funds and investigate alternatives to eliminate the deficits.

Conclusion - Response accepted.

**STATISTICAL SECTION
(UNAUDITED)**

CITY OF NEWTON, IOWA
TAX INCREMENT FINANCING FUND - STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS (UNAUDITED)
INCEPTION TO JUNE 30, 2006

Operating receipts:	
Bond proceeds	\$ 25,652,913
Interest on investments	85,295
Sale of property	1,079,681
Property taxes	11,351,308
Miscellaneous	578,184
	<hr/>
	38,747,381
	<hr/>
Operating disbursements:	
Property acquisition and improvement	8,254,401
Property demolition	368,432
Economic development grants	4,327,532
Legal and administrative	580,251
Property taxes	94,716
Relocation	47,050
Operating supplies	15,139
Structures	61,929
Refunds	474,057
Revenue bond principal	1,430,000
Revenue bond interest	878,194
Street improvements	1,239,670
City Hall site improvements	545,658
Private development improvements	457,407
Skiff Medical Center	280,000
Manufactured Gas Plant	1,877
Payment to other agencies	610,369
	<hr/>
	19,666,682
	<hr/>
Operating receipts over operating disbursements	19,080,699
Other transactions:	
Transfer to Debt Service Fund - bond interest	(12,329,780)
Transfer to General Fund - economic development	(1,583,080)
Transfer to Central Business District	(2,500)
Transfer to Employee Benefits Fund	(13,604)
Transfer to Capital Projects Fund	1,260
Interfund loan	1,876,639
	<hr/>
Cash and investment balance at June 30, 2006	<u><u>\$ 7,029,634</u></u>

Note: During fiscal year 1988, the City established a tax increment financing district to generate revenues to assist the City in funding responsibility for an urban renewal plan. Under the urban renewal plan, the City purchases properties located within the district to be demolished for development. The City issued bonds to initially fund this plan, which will be retired from fund revenues through transfers to the Debt Service Fund.

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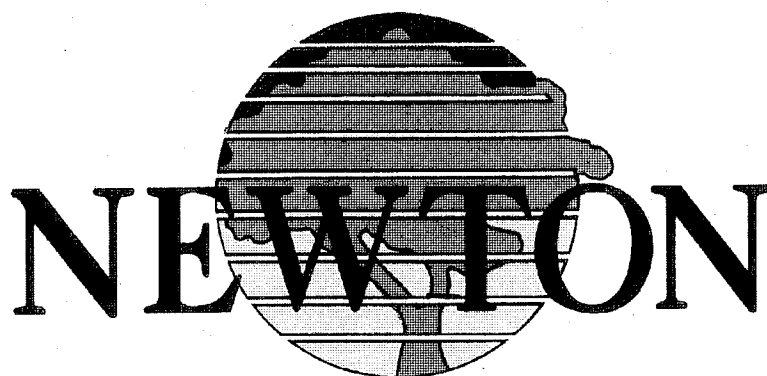


Table 2

CITY OF NEWTON, IOWA
COMPARISON OF ENTERPRISE FUNDS CHARGES FOR
SERVICES RECEIPTS (UNAUDITED)

<u>Year Ended</u> <u>June 30</u>	<u>Golf</u>	<u>Landfill</u>	<u>Sewer</u>	<u>Parking</u>
1997	\$ 223,025	\$ 959,529	\$ 1,452,777	\$ 67,551
1998	211,087	963,045	1,552,867	74,424
1999	237,829	1,016,244	1,624,456	71,803
2000	247,336	1,066,190	1,727,724	64,783
2001	252,813	1,023,040	1,663,932	64,157
2002	310,166	1,101,874	1,799,290	68,049
2003	337,385	1,004,252	1,907,363	80,521
2004	361,043	1,207,756	1,996,295	78,717
2005	382,123	1,094,907	2,158,385	87,684
2006	347,108	1,004,324	2,201,492	78,449

CITY OF NEWTON, IOWA
COMPARITIVE TOTAL AND PER CAPITA PROGRAM DISBURSEMENTS (UNAUDITED)

Year Ended June 30	Population Per Census	Public Safety Disbursements		Public Works Disbursements		Health and Social Services Disbursements		Culture and Recreation Disbursements		Community and Economic Development Disbursements	
		Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita
1997	14,789**										
1998	14,789**										
1999	14,789**										
2000	14,789**										
2001	15,579***										
2002	15,579***										
2003	15,579***	\$ 4,545,241	\$ 291.75	\$ 1,983,636	\$ 127.33	\$ 82,434	\$ 5.29	\$ 1,604,289	\$ 102.98	\$ 704,691	\$ 45.23
2004	15,579***	\$ 4,758,804	\$ 305.46	\$ 2,147,898	\$ 137.87	\$ 280,590	\$ 18.01	\$ 1,260,323	\$ 80.90	\$ 988,114	\$ 63.43
2005	15,579***	\$ 5,023,931	\$ 322.48	\$ 2,293,480	\$ 147.22	\$ 40,177	\$ 2.58	\$ 1,536,731	\$ 98.64	\$ 1,438,161	\$ 92.31
2006	15,579***	\$ 5,164,297	\$ 331.49	\$ 2,140,871	\$ 137.42	\$ 14,721	\$ 0.94	\$ 1,490,716	\$ 95.69	\$ 7,686,675	\$ 493.40

* Prior to 2003 disbursements were reported by programs. Function information is not available for these years.

** 1990 census figures

*** 2000 census figures

Table 3

General Government Disbursements		Debt Service Disbursements		Capital Projects Disbursements		Business-type Activities Disbursements		Total Disbursements	
Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita	Total	Per Capita
								14,043,618	949.60
								19,084,191	1,290.43
								18,034,278	1,219.44
								17,836,493	1,206.06
								17,936,321	1,151.31
								18,929,396	1,215.06
\$ 1,105,423	\$ 70.96	\$ 4,155,529	\$ 266.74	\$ 1,036,483	\$ 66.53	\$ 7,110,440	\$ 456.41	22,328,166	1,433.22
\$ 1,014,311	\$ 65.11	\$ 2,449,921	\$ 157.26	\$ 975,263	\$ 62.61	\$ 3,577,958	\$ 229.67	17,453,182	1,120.30
\$ 1,007,296	\$ 64.66	\$ 2,164,850	\$ 138.96	\$ 2,915,109	\$ 62.61	\$ 4,158,222	\$ 266.91	20,577,957	1,320.88
\$ 1,180,160	\$ 75.75	\$ 3,569,991	\$ 229.15	\$ 1,092,201	\$ 62.61	\$ 3,178,050	\$ 204.00	25,517,682	1,637.95

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Table 4

CITY OF NEWTON, IOWA
COMPARATIVE PROPERTY TAX RECEIPTS* BY FUND TYPE (UNAUDITED)

<u>Year Ended June 30</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>
1997	\$ 3,251,040	\$ 1,994,400	\$ 1,100,932
1998	3,320,362	2,150,861	1,187,108
1999	3,464,404	2,209,366	1,197,079
2000	3,581,029	2,285,484	1,166,506
2001	3,628,493	2,217,650	1,104,795
2002	3,809,166	2,174,281	1,152,609
2003	3,962,126	2,346,229	1,212,722
2004	3,419,134	2,200,265	1,019,238
2005	3,210,594	1,737,090	924,383
2006	3,640,718	1,753,991	944,354

* Includes special assessments

CITY OF NEWTON, IOWA
COMPARATIVE PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)

<u>Year Ended June 30</u>	<u>Collection Year Ended June 30</u>	<u>Total Property Tax Levy</u>	<u>Current Property Tax Collections</u>
1996	1997	\$ 5,585,788	\$ 5,540,103
1997	1998	5,732,255	5,763,270
1998	1999	5,922,601	5,934,327
1999	2000	5,976,126	6,025,184
2000	2001	5,810,661	6,004,953
2001	2002	6,002,909	6,289,066
2002	2003	6,051,121	6,456,534
2003	2004	5,888,462	6,175,595
2004	2005	5,917,919	5,654,909
2005	2006	5,987,798	5,994,989

Table 5

<u>Percent of Property Tax Levy Collected</u>	<u>Delinquent Property Tax Collections</u>	<u>TIF Property Tax Collections</u>	<u>Total Property Tax Collections</u>
99.18%	\$ 3,418	\$ 797,241	\$ 6,340,762
100.54	1,189	887,283	6,651,742
100.20	2,361	958,457	6,895,145
100.82	373	1,027,627	7,053,184
103.34	899	955,535	6,961,387
104.77	1,249	857,895	7,148,210
106.70	553	979,530	7,436,617
104.88	3,509	934,565	7,113,669
95.56	7,491	1,508,311	7,170,711
100.12	1,060	1,691,755	7,687,804

CITY OF NEWTON, IOWA
COMPARATIVE PROPERTY TAX RATES PER \$1,000 OF
ASSESSED VALUATION (UNAUDITED)

Levy Year	Collection Year Ended June 30	Levy For			
		Newton School District	City of Newton	Jasper County	Area Schools
1997	1998	\$ 13.12227	\$ 15.71000	\$ 9.65279	\$ 0.47230
1998	1999	13.08458	15.55000	8.91021	0.50551
1999	2000	15.39680	15.41000	9.87591	0.52451
2000	2001	15.40482	15.10449	7.12568	0.54506
2001	2002	15.04789	15.10000	7.02263	0.54454
2002	2003	15.83348	15.53000	5.84654	0.54584
2003	2004	16.40942	15.38000	5.89480	0.58184
2004	2005	17.19063	15.94998	8.06036	0.59856
2005	2006	16.78900	15.95000	9.16450	0.68408
2006	2007	16.91412	16.63000	9.24852	0.68688

Table 6

<u>Extension Council</u>	<u>County Assessor</u>	<u>Tuerculosis Eradication</u>	<u>Total</u>	<u>Percent of City of Newton Levy to Total Levy</u>
\$ 0.10349	\$ 0.32163	\$ 0.00500	\$ 39.38748	39.89%
0.09538	0.02635	0.00500	38.17703	40.73
0.09314	0.24894	0.00500	41.55430	37.08
0.10559	0.31415	0.00500	38.60479	39.13
0.11130	0.31981	0.00500	38.15117	39.58
0.13572	0.32864	0.00400	38.22422	40.62
0.14192	0.31173	0.00400	38.72371	39.71
0.14490	0.30222	0.00400	42.25065	37.75
0.14902	0.34677	0.00400	43.08737	37.02
0.16251	0.38972	0.00400	44.03575	37.76

Table 7

CITY OF NEWTON, IOWA
COMPARATIVE RATION OF GENERAL OBLIGATION BONDED DEBT TO TAXABLE VALUE
AND GENERAL OBLIGATION BONDED DEBT PER CAPITA (UNAUDITED)

Date	Population Per Census	Taxable Value (Agricultural Land Included)	General Obligation Bonded Debt	Ratio of General Obligation Bonded Debt to Taxable Value	General Obligation Bonded Debt Per Capita
6/30/1997	14,789*	\$ 385,975,998	\$ 13,772,666 (1) (2) (3)	0.035682	\$ 931.28
6/30/1998	14,789*	417,849,040	12,806,147 (2) (3)	0.030648	865.92
6/30/1999	14,789*	421,775,111	13,642,013 (2) (3)	0.032344	922.44
6/30/2000	14,789*	423,094,033	13,268,803 (2) (3)	0.031361	897.21
6/30/2001	15,579**	434,293,599	14,514,058 (2) (3)	0.033420	931.64
6/30/2002	15,579**	427,155,346	12,978,392 (2) (3)	0.030383	833.07
6/30/2003	15,579**	418,921,161	13,963,029 (2) (3)	0.033331	896.27
6/30/2004	15,579**	427,155,346	13,032,467 (2) (3)	0.030509	836.54
6/30/2005	15,579**	420,783,396	13,125,190 (2) (3)	0.031192	842.49
6/30/2006	15,579**	426,286,988	24,042,419 (2) (3)	17.730620	1,543.26

* 1990 census figures.

** 2000 census figures.

- (1) Includes the City's pro-rata share of the Iowa Municipalities Workers' Compensation Association (IMWCA) bond issue to establish a fund to pay workers' compensation claims of IMWCA members.
- (2) Includes capital loan notes payable.
- (3) Includes future capital lease payments.

Table 8

CITY OF NEWTON, IOWA
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
JUNE 30, 2006

Fire and extended property coverage - all risk - \$1,000 deductible:	
APD Vehicle	\$ 3,854,987
Buildings	26,442,859
Personal property	3,607,348
Miscellaneous property	2,980,216
Fire and extended property coverage - all risk - \$500 deductible:	
EDP Hardware	72,200
Comprehensive automobile coverage:	
Bodily injury	2,000,000
Property damage	2,000,000
Uninsured motorist/underinsured motorist	1,000,000
Comprehensive	100 deductible
Collision	1,000 deductible
Comprehensive general liability	2,000,000
Boiler explosion damage to boiler and building	1,500,000
Umbrella excess liability coverage(includes auto bodily injury and property damage)	3,000,000
Ambulance and EMT professional liability	2,000,000
Airport liability	5,000,000
City clerk legal liability bond(errors and omissions)	2,000,000
Public officials liability	2,000,000
Workers' compensation	Statutory limit

Table 9

CITY OF NEWTON, IOWA
SEWER FUND DATA (UNAUDITED)
JUNE 30, 2006

Sewer customers served at June 30, 2006 6,179

Sewer rates in effect at June 30, 2006:
Minimum charge of \$7.11 per month plus \$2.28/100 cubic
feet over the first 200 cubic feet used.

A surcharge factor is levied for the following customers whose
waste waters exceed normal domestic waste water:

<u>Customer Type</u>	<u>Surcharge Factor</u>
Newton schools	1.1
Laundry, including industrial laundries, commercial laundries, and laundromatic	1.2
Car washes	1.3
Restaurants - including quick serve and sit-down types	1.6
Bakeries	1.4
Nursing homes	1.6

CITY OF NEWTON, IOWA
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
JUNE 30, 2006

Ten Largest Employers in Jasper County

Name (1)	Business Activity
Maytag Company	Manufacturing
Skiff Medical Center	Hospital
Wal-Mart, Inc.	Retail
Iowa Telecom	Communications
Hy-Vee Corporation	Food retailer
CGB Printing	Commercial printing
Rock Communications	Commercial printing
Progress Industries	Human services
The Vernon Company	Specialty advertising
Seabury & Smith	Insurance

Ten Largest Taxpayer by Assessed Valuation (does not include utilities)

Name (2)	Business Activity
Maytag Company	Manufacturing
Wesley Retirement Services, Inc.	Retirement home
Newton Village	Retirement home
Wal-Mart, Inc.	Retail
Hy-Vee Corporation	Food retailer
Washington Motel Association, LC	Hotel
Walters Investment/Dave Walters	Real estate
Des Moines Area Community College Foundation	Education
US Bank	Banking
The Vernon Company	Specialty advertising

(1) Source - Iowa Workforce Development

(2) Source - City's Assessor's Office

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